

# PUBLIC SERVICE COMMISSION

## STATE OF NORTH DAKOTA

Public Service Commission  
Incentive Regulation-Electric  
Investigation

Case No. PU-439-94-590

### GUIDELINES FOR FILING ALTERNATIVE REGULATION PROPOSALS

September 20, 1995

The Commission wants North Dakota consumers to receive reliable electric service at the lowest reasonable rates. To further that purpose, the Commission will consider proposals for alternative forms of regulation.

The Commission and interested parties have been meeting in workshop and public input settings to discuss different types of regulation for electric companies during the past several months. Based on those discussions, proposals should promote the following goals:

1. **Promote Utility Efficiencies:** Regulatory signals should encourage short and long term cost optimization, streamlined operating procedures, improved employee productivity, and increased pricing efficiency.
2. **Align Customer and Shareholder Interests:** Utilities and their customers should share in benefits obtained through improved efficiency and innovative techniques.
3. **Maintain/Improve Customer Service:** Safety, reliability, and customer service and satisfaction should be maintained or improved over current levels, and customers should experience lower, non-discriminatory rates than they would with the current regulatory framework.
4. **Allow Utilities to be Flexible:** Utilities must be able to respond to customers specific needs.
5. **Minimize Regulatory Costs:** Regulation should focus more on results (overall performance) rather than processes and allow increased flexibility in

management decisions. This will reduce the need for some filings, hearings, and other regulatory proceedings and enable utilities to respond more quickly and creatively to changing business conditions.

6. **Improve Public Participation:** Opportunities for public input should be enhanced.

Proposals should also meet the following criteria:

1. **Comprehensive:** Adopt plans that keep the focus on the overall economics of operating the utility and serving customers. The plans should also avoid potential for overemphasis on specific aspects of the utility operation.

2. **Administratively Simple:** Adopt plans that are straightforward, using easily measured data. Plans should include measurable and verifiable processes that avoid arguments by parties in assessing results to provide a basis for evaluating the success of the plan.

3. **Easily Communicated:** Adopt plans that utility employees understand so that actions to make improvements occur. The goal of alternative plans is to improve performance above the level that would have been achieved without the plan. It takes actions by utility employees to make this happen. Plans should also contain mechanisms that inform customers about plans and their benefits.

4. **Balanced:** Adopt plans that are symmetrical in terms of the rewards and penalties offered. In a competitive market, good performance is rewarded and poor performance is penalized.

5. **Flexible:** Adopt utility specific plans that provide flexibility both in terms of the ability to modify plans to improve effectiveness and in terms of the utility's ability to be responsive to customers in increasingly competitive situations.

The Commission would also like any proposals to reflect the following considerations:

1. That a utility should not assume that its existing rate base will be the base to which the alternative rate proposal will apply. The utility must show that the base rates--calculated on a cost-of-service basis--are just and reasonable at the start of the alternative mechanism.

2. That the proposal will be for a limited period of time and for an experimental purpose only. Each plan should include a review date and a rationale for that date. The Commission will consider the time period proposed in conjunction with the plan.

3. That during the period of the experiment, the plan will provide for a periodic review of the utility's profits by the Commission, which profits will be adjusted, if necessary, pursuant to criteria defined in the plan.

4. That the proposal will enable the Commission to judge the success of the experiment at its completion.

5. In adopting these guidelines, the Commission will not permit companies to violate the Territorial Integrity Act.

### **PUBLIC SERVICE COMMISSION**

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**Bruce Hagen**  
**Commissioner**

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**Susan E. Wefald**  
**President**

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**Leo M. Reinbold**  
**Commissioner**